Statement of Statutory Accounting Principles No. 7

Asset Valuation Reserve and Interest Maintenance Reserve

STATUS

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SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies filing on the *Life, Accident & Health/Fraternal Annual Statement Blank* for the general account as well as book-valued insulated and noninsulated separate accounts[1].

[1] Pursuant to SSAP No. 56, if AVR is required for investments held at book value or fair value in a separate account, it is combined with the general account AVR and accounted for in the general account statements. Guidance in SSAP No. 56 shall be followed for recognizing IMR for book value separate accounts.

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SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and noninsulated separate accounts in accordance with the principles included in this statement.

3. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories excluding cash, policy loans, premium notes, and income receivable.

4. The IMR is a valuation adjustment to maintain consistency between the Valuation Manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls).

5. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the Valuation Manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset).

6. This statement includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be immediately recognized as either a change in net unrealized foreign exchange gains or loss or as realized foreign exchange capital gains or losses (excluded from both AVR and IMR), with the remaining portion subject to the requirements contained in this statement.

Asset Valuation Reserve

7. The accounting and reporting guidance for the AVR is primarily contained with the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve, and other relevant guidance. The AVR guidance contained in this statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the IMR. Unrealized gains and losses as referred to in this statement are those which are recorded in the financial statements in accordance with the applicable SSAPs.

8. Realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist.

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9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following:

a. For those with NAIC designations[2] (excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation categories and does not have an ending NAIC 1 designation.

b. There was an acute credit event (a known event that significantly impacts the price of the security), that was not reflected in the credit rating provider (CRP) rating detail and/or within the SVO AVS+ (NAIC designation detail) at the time of the sale.

c. An other-than-temporary impairment is recognized because the insurer does not expect to collect all contractual amounts due from the issuer, regardless of the extent of NAIC designation changes. This provision is specific to credit-related impairments and is not intended to encompass situations in which an OTTI is recognized simply because a decision was made to sell the security at fair value, and that amount is below the book/adjusted carrying value (BACV) due to interest-related changes.

d. For mortgage loans:

i. Mortgage loan had an established valuation allowance under *SSAP No. 37—Mortgage Loans*,

ii. Interest was more than 90-days past due,

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

v. The terms of the loan have been restructured during the last two years.

Interest Maintenance Reserve

10. Realized gains and losses from the following list of qualifying fixed income investments shall be allocated to the IMR, subject to the other provisions and requirements of this standard. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR.

a. Debt securities that do not Qualify as Bonds as defined in *SSAP No. 21—Other Admitted Assets*

b. Investments in scope of *SSAP No. 26—Bonds*

c. Investments in scope of *SSAP No. 43—Asset-Backed Securities*

d. Redeemable preferred stock in scope of *SSAP No. 32—Preferred Stock*

[2] Mandatory convertible bonds in scope of SSAP No. 26 are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion and reported at amortized cost, the realized gain or loss shall be fully allocated to the IMR. If reported at fair value at the time of sale, the realized gain or loss shall be fully allocated to the AVR.

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e. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans*

f. Investments in scope of *SSAP No. 41—Surplus Notes*

g. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

h. Terminated income generating derivatives in scope of SSAP No. 86 resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

i. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is reported at amortized cost[3].

11. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during periods in which the entity has incurred known liquidity sales.

12. Realized losses on sales of qualifying fixed income investments that have not experienced credit deterioration under paragraph 9 shall be allocated to IMR, unless it represents a known liquidity sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4].

13. Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses on sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. Situations in which reinvestment may be known to not occur include, but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. Additionally, reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures.

Adjustments – Market Value Adjustments

14. Gains or losses resulting from market value adjustments (MVA), net of the federal marginal tax impact, shall be captured in the IMR as they are incurred throughout the year[5]. Reporting entities that

[3] Allocation to IMR or AVR for RSAT transactions shall follow the designation change guidance in paragraph 9.a. based on the SVO-assigned NAIC designation for the RSAT. Gains or losses from RSAT transactions when the derivative is reported at fair value are not permitted to be recognized in the IMR. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10.g., shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

[5] MVAs shall only be deferred for book-valued separate account and general account products. No MVAs shall be deferred in the IMR for separate accounts held at fair value.

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have recognized known liquidity sale losses in the current year are permitted to reclassify current year net MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses.

Amortization

15. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity[6] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity.

16. For MVA (liability) taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a MVA, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a MVA that would have incurred a MVA if surrendered through 2015, has five calendar years to expected maturity.

Net Negative IMR Recognition Restrictions

17. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general and each filed separate account blank) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year.

a. Reporting entities with an ending net positive IMR position, after inclusion of expected amortization from the prior year IMR balance and current year realized gains and losses, are not required to complete the proof of reinvestment.

b. Reporting entities with an ending net negative IMR position that is a lesser net negative IMR position from the prior year (closer to zero), after inclusion of expected amortization from the prior year IMR balance, and current year realized gains and losses are not required to complete the proof of reinvestment.

18. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment

[6] For fixed income investments with fixed contractual repayment dates and amounts, the term "expected maturity" shall be consistent with the "effective date of maturity" defined in SSAP No. 26 for callable bonds under the yield-to-worst concept. This requires amortization to the call or maturity value/date that produces the lowest asset value. The annual statement instructions include further guidance on the application of "expected maturity" for specific investments.

concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed income investments is greater than the yield of fixed income investments sold.

19. Reporting entities (other than those described in paragraphs 17.a. and 17.b.) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted because the net negative losses are not from the sale of a fixed-income investment; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculation.

a. Reporting entities are permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains.

b. Reporting entities are permitted to recognize current year net negative IMR losses recognized from an assumed reinsurance arrangement beyond what is permitted as an offset to realized capital gains.

Adjustments – Ceded and Assumed Reinsurance

20. At inception of the reinsurance agreement, an insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most yearly-renewable term (YRT) agreements, shall derecognize the associated IMR at the time the business is ceded unless the transaction is a modified coinsurance (modco) or coinsurance with funds withheld (FWH) agreement. An insurer (ceding entity) shall derecognize the associated IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been derecognized. The amount of the IMR that shall be derecognized includes:

a. Past Sales Attributed to Reinsured Block of Business: Remaining, unamortized, interest related realized gains and losses recognized in the IMR from prior asset sales associated with the reinsured block of liabilities shall be derecognized from the IMR as part of the reinsurance transaction. If the ceding entity had not been tracking assets specific to the block of business, the entity shall identify the assets (and the unamortized realized gains/losses remaining in the IMR from those assets) using methodologies in line with the insurer's existing practices, for example, proportionate to reserves ceded .

b. Current Sales Incurred or the Transfer of Assets to Provide Reinsurance Premium: Interest-rate related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction shall be recognized initially in the IMR and then derecognized as part of the reinsurance transaction.

21. For insurers ceding business under a modco or FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting

process in the Annual Statement Instructions for ceding/assuming reinsurance business using a modco or FWH agreement.

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Writes-Ins for Deductions.

b. For agreements that settle realized gains and losses with the reinsurer over time through inclusion of the IMR amortization, an insurer (ceding entity) shall retain the IMR attributed to the reinsured business and pass through the associated IMR amortization through an adjustment to the FWH liability or modco reserve on an ongoing basis. An insurer (ceding entity) that retains the IMR and passes through the amortization shall continue to recognize the IMR from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. The amortization of the IMR shall be passed through as an adjustment to the FWH liability or modco reserve.

22. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions or asset transfers the ceding entity incurred to transfer the reinsurance obligation.

23. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, if required. In the event the reinsurance transaction is recaptured, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. If an assuming entity is not required to maintain IMR (i.e., non-U.S. domiciled insurance reporting entities), and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date.

Admittance

24. Reporting entities that meet the requirements of paragraph 25 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[7] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the reporting entity has experienced a decline in capital and surplus, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the

[7] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

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negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account).

a. For the adjusted capital and surplus calculation: Capital and surplus shall be adjusted to exclude any admitted net positive goodwill, electronic data processing (EDP) equipment and operating system software, net deferred tax assets (DTAs) and net negative IMR. The adjusted capital and surplus calculation shall reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR as reported in the third quarter financial statements to determine the limit for the annual financial statements.)

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and asset adequacy testing pursuant to paragraph 25.c. Rather, any reconciliation difference from the admitted IMR originally determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

25. Requirements to admit net negative IMR:

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures described in paragraph 29. If a reporting entity does not fully complete the data-captured disclosures[8] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT) pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, VM-21: Requirements for Principle-Based Reserves for Variable Annuities*, *VM-22: Requirements for Principle-Based Reserves for Non-Variable Annuities*, and *VM-30: Actuarial Opinion and Memorandum Requirements*. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and AAT to ensure reserves are appropriately stated.

8 Reporting entities that complete narrative disclosures in lieu of the data-captured templates, even if reporting equivalent information, are not permitted to admit negative IMR.

26. Reporting entities are permitted to admit net negative IMR in the general account and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph 24. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request.

27. Reporting entities that admit net negative IMR shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.

Disclosures

28. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are also required to complete the IMR rollforward and amortization schedule[9] in the annual financial statements.

29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements:

a. Reporting entities with admitted net negative IMR shall complete a note disclosure that details the following:

i. Total net negative IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,

ii. Amounts of net negative IMR admitted in the general account and in the separate account insulated and non-insulated blank,

iii. The calculated adjusted capital and surplus per paragraph 24.a., and

iv. Percentage of adjusted capital and surplus for which the admitted net negative IMR represents (including what is admitted in the general account and in the separate accounts).

b. Reporting entities shall include an attestation regarding known liquidity sale losses:

i. The reporting entity has a documented process to identify material known liquidity sale losses, as addressed in paragraph 13.

ii. The reporting entity has not allocated any material realized losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

[9] For reporting entities subject to paragraph 29.c., the annual amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

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iii. The reporting entity has disclosed all known liquidity sale losses recognized in income.

c. Reporting entities that have moved from a net positive IMR position to a net negative position or that have increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative IMR balance. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses.

d. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years.

e. Reporting entities shall disclose the reconciliation of admitted negative IMR to the reported IMR reflected for PBR and AAT as required in paragraph 25.c. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy testing reconciliation to the admitted IMR ultimately shown in the annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually.

Effective Date and Transition

30. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

31. Revisions to this statement, adopted November 2026, that incorporate revisions reflecting a comprehensive review of the IMR, are effective January 1, 2028, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items noted in the following subparagraphs. Issue Paper No. 173 includes additional discussion and other revisions incorporated.

a. Designation Change Guidance: The NAIC designation category change guidance incorporated within this statement is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less designation declines at the time of sale. Changes also revised the guidance to require allocation to the AVR for fixed-income instruments held at fair value, instead of using the NAIC 6 designation and incorporated the designation category change guidance for all investments with NAIC designations. This was a change for asset-backed securities and non-bond debt securities that previously required individual assessment and bifurcation of interest and non-interest components.

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b. Disallowed IMR: Prior the effective date of this statement, IMR in the general account and the separate accounts was compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability instead of a nonadmitted asset if the separate account IMR was in an offsetting positive balance. With the changes reflected in this statement, IMR shall be separately contained within each account, and the reporting shall be based on the position of IMR in each account. The provisions of this statement do not allow reporting of the IMR as a contra-liability, and the concept of "disallowed" IMR has been eliminated.

c. IMR Amortization: Prior to the effective date of this statement, reporting entities had three options in determining IMR amortization. With the revisions, all reporting entities shall follow the standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to maturity and shall follow the NAIC "Grouped Amortization Schedule" published annually. Reporting entities that had elected a different amortization approach for previously recognized IMR are permitted to continue to follow that amortization schedule until the associated IMR has fully amortized. All IMR recognized after the effective date of this statement shall follow the simplified group method for amortization.

d. IMR from Hedging Derivatives: Although SSAP No. 86 only referenced IMR allocation for realized gains and losses from highly effective accounting hedges, an industry interpretation of the annual statement instructions resulted with some companies allocating gains and losses from non-accounting effective hedging derivatives to the IMR. With the revisions in this statement, only realized gains and losses from highly effective hedges that qualify under the "hedge accounting method" under SSAP No. 86 are permitted to be allocated to the IMR. Reporting entities that had previously allocated realized gains and losses to IMR from non-qualifying hedging derivatives shall amortize those IMR balances over a period not to exceed 10 years.

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block of business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. Discussion of the rationale supporting this position is retained in Issue Paper 173.

f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital losses from known liquidity sales and not defer them through the IMR. A new disclosure attestation was incorporated with the effective date of this statement to identify known liquidity sales losses.

g. Market Value Adjustments: The inclusion of all MVAs in IMR is a change from historical guidance where they were only included in accordance with a materiality threshold. With the revisions, reporting of market value adjustments is separately divided between realized gains and losses on the IMR schedule.

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REFERENCES

Relevant Issue Papers

Issue Paper No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

Issue Paper No. 173 – Interest Maintenance Reserve

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